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without significance. Recent economic theory has shown a tendency to disregard the time-honored distinction between "necessary" and "surplus" income—a distinction which has a practical bearing upon taxation, and one which may be found useful in a study of the history of class formation and class antagonisms. Mr. Hobson deserves much credit for a sincere attempt to lay a new logical foundation for this distinction, and for his ingenious suggestions as to its applicability to the current financial situation of the United Kingdom.

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*Das Wesen und der Hauptinhalt der theoretischen Nationalökonomie.* By JOSEPH SCHUMPETER. (Leipzig: Duncker und Humblot. 1908. Pp. xxii, 626.)

In its proposals as to method, as well as in the conclusions of theory derived from an illustrative use of the method, Schumpeter's book on the nature and scope of pure economics is revolutionary; yet the whole spirit of the book, with its abundant evidence of careful research and reflection, proves that the author is far from being a revolutionist for the sake of revolution. The book seems deserving of more attention and consideration than it has received from American and English economists.

To attempt a brief review of the book is to run an unusual risk of doing it less than justice. A large volume, in a foreign tongue, devoted to an abstract treatment of a highly abstract subject, and constantly challenging the most generally accepted opinions, hardly invites a reviewer to confirm or disprove his author's claims, within the proper limits of this review. In spite of long and painstaking study, the present reviewer frankly confesses incompetence to express any opinion as to Schumpeter's claims for his method or as to the results which he derives from its use for purposes of illustration. It will perhaps be sufficient, as it will certainly be safer, to confine the review to a brief comment on a few of the most important features in which the book represents a departure from the traditional and the usual.

First of all, it should be noted that Schumpeter is an avowed pragmatist. His book marks the first conscious attempt, so far as the reviewer is aware, to apply the new-old philosophy of pragmatism in the unexpected field of pure economics. Cost of production theories, marginal utility theories, and the like, are not

“true” or “false,” in the sense in which we have been wont to regard those terms. We are rather concerned to know which of competing premises or theories will work, and if we approach our problems from this point of view, and without prejudice, we shall find ourselves choosing now one, now another, even of premises and theories which have been thought contradictory. Such premises and theories are to be regarded quite frankly merely as methodological instruments.

A second characteristic feature of the work is its insistence on limiting pure economics to the field of statics. Economic dynamics can never be an “exact” science. Here the statistician and the historian—much more, the sociologist—are to find their field. Only confusion and error can result from the failure of the economist to keep this distinction constantly and clearly in mind. In Schumpeter’s view, this confusion has been and is the chief impediment in the way of a perfected and universally accepted—because indisputable, exact science of economics.

This “exact” science of “pure,” “theoretical” economics is entirely self-contained. Economists do not, e. g., have to consider the psychological validity of any principles of hedonics, not, as some economists would have it, because we get these principles as data from another science, but for the simpler reason that we do not need such data at all. The bases of the economic calculus are themselves economic facts. In this way Schumpeter would save us from the exhausting controversies regarding the number and variety and complexity of motives that inspire human conduct. We need no longer worry lest our conclusions be invalidated by failure to weigh properly the influence of desire for power or social esteem.

From what has gone before, it should already be evident to the reader that within this narrow and sharply defined scope, Schumpeter’s economic system is expressed in a very simple and very abstract form. It is the contention of the author that the science can be contained entirely within the limits of mathematical expression. This may appear more clearly in the following freely translated summary:

When we consider any economy, we find every economic subject in possession of definite quantities of definite goods. These economic quantities stand in a relation of balanced interdependence in such wise that any change in one involves a change in the others. These quantities, then, form the elements of a system. If now we find that for any given magnitude of one of them, one magnitude, and one only, is consistent for the remainder, we call the system

definitely determined. Such a position we call a position of equilibrium, and the particular quantities are said to be normal or natural. Our task it is, given any position of an economy, to derive those quantitative changes which are bound to occur, if nothing unforeseen interferes. This derivation is what we call explanation. It is accomplished by a description of those dependent relations to which reference has just been made, and so we may define our task as description of our system and of its tendencies to change. Since this can be done without being compelled to resort to other sciences for any material propositions, we have here a self-contained science of economics.

To Schumpeter, then, the whole of pure economics is summed up in a study of the equation of equilibrium. Such study is of two kinds. The first, which he calls *das Zurechnungsproblem*, is of the sort briefly described in the above quotation. The other, called *die Variationsmethode*, consists in assigning new and arbitrary values to quantities in the equation and then deriving the new values that must be given to the other quantities in order to make the equation mathematically consistent. Schumpeter is at great pains to show that this procedure is essentially different from dynamic economics.

From the first of the two methods, Schumpeter develops a theory of distribution. It should be explained that this theory, though it fills a large part of the book, is offered rather by way of illustration than as an independent treatment of the subject. The author reaches the startling conclusion that interest is not a branch of static income at all. Again the reviewer would enter his caveat that it would be unfair to attempt a confirmation or refutation of Schumpeter's theory without more extended explanation than is here possible.

One of the most valuable features of the book lies in its discussion of the views of other economists. This discussion, which constitutes in the aggregate a large part of the volume, is quite unusually catholic and kindly. It reveals a closely critical knowledge of the economic literature of the nineteenth century, both European and American. Especially worthy of note, for American readers, is the fact that Schumpeter knows and places a high value upon the work of American economists, as is shown by frequent references.

The book challenges the careful study of economists, and deserves it.

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